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C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 000061

SIPDIS

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STATE FOR SCA/CEN, H, EEB (AMB. STEVE MANN)
PLEASE PASS TO USTDA DAN STEIN AND TO SENATOR LUGAR'S STAFF
ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR HUEPER

E.O. 12958: DECL: 01/14/2018

TAGS: [PGOV](#) [PREL](#) [EPET](#) [TX](#)

SUBJECT: STATE AGENCY'S MURADOV TELLS SENATOR LUGAR
TURKMENISTAN SEEKS "HARMONY" IN PRICE-SHARING ARRANGEMENTS

REF: ASHGABAT 0049

Classified By: Charge Richard E. Hoagland for reasons 1.4(B) and (D).

11. (C) SUMMARY: Executive Director of Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources, Bayrammurat Muradov, told Senator Richard Lugar on January 11 Turkmenistan needs energy revenue to fund its development, and increasing foreign direct investment in Turkmenistan's hydrocarbons sector and promoting pipeline diversification are the leadership's top priorities. Muradov said the Turkmenistan government welcomes foreign involvement under production sharing agreements (PSAs) in the Caspian Sea, even though the government would like to train Turkmenistan citizens eventually to manage offshore operations. In looking at cost-sharing arrangements around the world, including in Kazakhstan's Kashagan fields, Turkmenistan has concluded that giving either side an excessive share of the profits hurts a project in the long term and instead is looking for "harmony." Muradov also acknowledged that Turkmenistan is getting a relatively low price for its gas from Russia, but stressed that Turkmenistan's alternatives are limited, since no European companies are seeking to negotiate a higher at-the-border purchase price for Turkmenistan's gas. Although none of this is especially new, Muradov's forthright presentation demonstrates a willingness to consider possible new options as the authorities seek to work through the very complex decisions with which they are being presented, including on price-sharing arrangements and delivery options. END SUMMARY.

12. (C) Senator Richard Lugar (R-IN) met January 11 with Executive Director of Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources Bayrammurat Muradov. The nearly one-hour meeting was extremely cordial and straightforward. Muradov received the delegation with great respect, and was deferential to Senator Lugar

throughout the meeting.

¶3. (C) Lugar told Muradov that he had earlier in the day discussed agriculture and energy with President Berdimuhamedov (septel). Lugar said that he had a good sense of the President's desire to cooperate with many countries. He told Muradov he had also mentioned to Berdimuhamedov that President Saakashvili of Georgia was very pleased that the president would visit Tbilisi for the upcoming presidential inauguration -- and about the chance to discuss natural gas in Georgia. Lugar had also discussed with Berdimuhamedov the need for a Trans-Caspian pipeline (TCP) or other transport system for Turkmenistan's gas and the responses of countries wanting to import that gas. He asked Muradov how the United States could assist Turkmenistan's efforts to develop its energy sector.

TURKMENISTAN'S PRIORITIES: DEVELOPING THE CASPIAN BLOCKS

¶4. (C) Noting that energy has become more politics than business, Muradov said energy is the basis for Turkmenistan's development. The State Agency's objective is to attract foreign direct investment for Turkmenistan's 32 Caspian Sea blocks needed for that development. The U.S. firm, Western Geco, in 2000 had concluded that there are reserves of 18 billion barrels of oil in the Southern Caspian Sea. While there has been an increase in interest in working in Turkmenistan, including from U.S. companies, many of those companies are looking for a quick profit and have bid on onshore projects, Muradov said. "We're trying to attract offshore investment. This is very important not just for regional but also for global energy security." Muradov

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further noted, "We want our investors to profit because that will guarantee new export routes for us." (COMMENT: This, and Berdimuhamedov's similar comments (septel), indicates an evolution in Turkmenistani understanding of how a trans-Caspian pipeline could eventually be built. END COMMENT.)

PROMOTING PIPELINE DIVERSIFICATION

¶5. (C) Muradov noted that President Berdimuhamedov had ordered an international audit of Turkmenistan's hydrocarbons reserves (reftel). "We're young, and not always effective," Muradov said, adding Turkmenistan needs advice from experts. As has been said at the highest levels and in numerous fora, diversification of hydrocarbons export routes is one of the leadership's top priorities. The lack of transit guarantees disadvantages both producers and consumers, and the State Agency wants to be able to provide such guarantees for energy producers. Muradov said that these are Turkmenistan's priorities, and the government welcomes positive, constructive advice.

BALANCING FOREIGN INVOLVEMENT AGAINST GOING IT ALONE

¶6. (C) When Senator Lugar asked what role Turkmenistan sees foreign companies playing in the hydrocarbons sector, Muradov responded in the offshore blocks Turkmenistan seeks partnerships with foreign companies under production sharing agreements (PSAs). While the government wants to train Turkmenistani citizens eventually to manage offshore operations, it is also asking whether, in light of globalization, Turkmenistan should do everything itself. The government has to proceed carefully, trying to decide what to do itself and what to contract to foreigners. This is another area where Turkmenistan would welcome advice.

¶7. (C) Onshore, Muradov continued, Turkmenistan has been working with foreign companies primarily under service contracts in projects being worked by Turkmenistan's state firms. However, production is becoming tougher, requiring advanced science and technology. Responding to a question from the senator, Muradov confirmed that the firm

Schlumberger works both onshore and offshore in Turkmenistan through service contracts. He, he added, Turkmenistan, following market principles, wants to increase the number of foreign service companies to prevent over-dependence on only one, like Schlumberger.

TURKMENISTAN LOOKING FOR HARMONY IN PROFIT-SHARING

18. (C) Noting that the Kazakh authorities are negotiating with six foreign companies to increase the share by national oil companies in the Kashagan project, the senator asked for Muradov's thoughts on cost-sharing arrangements. Muradov replied that cost-sharing arrangements is one of the most painful issues that the State Agency has to deal with. Based on what is happening around the world, including at Kashagan, Turkmenistan has concluded that giving either side an excessive share of the profits in the long term hurts a project. "We need the Chinese principle of harmony, and it can be difficult to find the right formula for harmony. If both sides understand this is what we are looking for, it is a good basis for a contract." Muradov added that the State Agency has also seen that foreign companies active here can accrue profits beyond what they earn through their daily operations. For example, the fact that PSAs allow companies to put their reserves on their books allows them to increase their share prices, as recently happened with UK firm Burren Energy.

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19. (C) Muradov asked Senator Lugar for his thoughts on the situation in Kashagan and on whether it is better to use a PSA arrangement or the lease system used by the U.S. Department of the Interior's Minerals Management Service. Drawing on the situation in Venezuela, the senator noted that a number of companies, including from the United States, had contracts there. As time has gone on, President Chavez has become dissatisfied with the government's share, with the result that some of the companies previously active there have left. For the time being and with current oil prices, this has meant more money for President Chavez and his social projects. However, some also believe that the lack of proper servicing of the oil fields will ultimately lead to the fields' permanent impairment.

110. (C) Lugar said, with that example in mind and looking at Kashagan, it is obvious the parties involved entered the profit-sharing agreements that they did because the oil in Kashagan is very difficult to get to. As Muradov himself had observed, the costs of development there have risen to astronomical levels, so Kazakhstan is negotiating with the six major firms involved in the project to extract the revenue which it thinks it should have. But it has also passed legislation which could allow it just to take ownership of the project. Senator Lugar suggested a similar situation is likely to happen in many other countries -- though not in Turkmenistan -- because the stakes are high and the profit-sharing problems Kazakhstan is facing with its partners are difficult to resolve. "The best course," he concluded, "may be something like you are trying to achieve here."

TURKMENISTAN IS CAUGHT IN GAZPROM'S PRICING NET

111. (C) Noting that, although Turkmenistan has had long discussions with Russia over gas prices, it still is receiving only about half of what Europeans are paying for Turkmenistan's gas, Senator Lugar asked how Turkmenistan determines its gas prices. Muradov responded that, although no country wants to lose profits and Turkmenistan in principle would be willing to conduct negotiations for higher prices directly with the consumers, no European company or country has said that it is willing to purchase gas at Turkmenistan's border. And, while it is possible in theory to discuss higher prices, nobody has offered any concrete proposals. It is also important to fulfill Turkmenistan's

prior commitments. Consequently, Turkmenistan needs to find "peaceful and calm" solutions to such issues -- something that the country is doing under President Berdimuhamedov -- and Russia is reacting with understanding. Although it would make Muradov's own life easier if a company would be willing to pay two times the price Turkmenistan currently is receiving from Gazprom at its border, the lack of alternative delivery systems means that Turkmenistan must stick with its current mechanisms.

¶12. (C) Muradov stated Turkmenistan takes its commitments under the Energy Charter seriously. To that end, President Berdimuhamedov has proposed introducing a UN resolution focused on promoting trunk pipeline security. Muradov hoped that if the UN adopts the pipeline security resolution, Turkmenistan can diversify, which, he claimed, "is one of the goals of democracy."

¶13. (C) Charge told Muradov he had just made a perfect argument for why Turkmenistan should become a partner in the upstream, midstream, and downstream ownership, because control of the infrastructure gives Turkmenistan the

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opportunity for profit on its own terms. Muradov responded that such a situation -- so far -- is not on the near horizon, and Turkmenistan cannot promise something it cannot deliver. Time will show if the situation will change, but "I'm not a politician, and I'm trying to do it the way it should be done. Politics are different for us." Thanking the senator again for his visit, Muradov hoped that he would visit more frequently.

¶14. (C) COMMENT: As usual, Muradov was an up-front, open interlocutor. The delegation was especially impressed by Muradov's willingness to ask for assistance and advice. It was clear from Muradov's presentation that much is in flux in Turkmenistan's hydrocarbon sector as the authorities seek to work through the very complex decisions with which they are being presented, including on price-sharing arrangements and delivery options. END COMMENT.

¶15. (U) CODEL Lugar did not have an opportunity to clear this cable but authorized its transmission.
HOAGLAND